SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

ANNUAL REPORT

Year Ended
December 31,

1 9 9 0

Letter of Transmittal

91-04173/

To Her Honour
The Honourable Sylvia O. Fedoruk
Lieutenant Governor of the Province of Saskatchewan

Madam:

I have the honour to submit herewith the Annual Report of the Saskatchewan Government Growth Fund Management Corporation for the year ended December 31, 1990, including the financial statements duly certified in the form approved by the Treasury Board, all in accordance with the Crown Corporations Act.

I have the honour to be,

Your obedient servant,

Grant Schmidt,
Minister of Economic Diversification
and Trade

Chairman's Report

During 1990, the Saskatchewan Government Growth Fund Management Corporation (SGGFMC) engaged the Saskatchewan Economic Development Corporation to manage and administer the subsidiary of SGGFMC, the Saskatchewan Government Growth Fund Ltd. (The Fund).

The Fund is designed to provide a vehicle for foreign investors to invest in businesses located in Saskatchewan, particularly in rural areas. It also facilitates qualification of the investor as a Canadian permanent resident under the Immigrant Investor Program pursuant to the Canadian Immigration Act.

Sales of units are available to potential investors through a network of sales agents.

On December 31, 1990 the first series had obtained sales of 177 units for a total value of $26,550,000. In accordance with the escrow agreement, capital first became available for investment in September, 1990.

The investment criteria of The Fund are designed to promote investment in Saskatchewan businesses involved primarily in value added processing ventures which produce goods for export.

Marketing of a second series will commence in 1991.

I submitted my resignation on December 31, 1990 to pursue an alternative career. I am grateful for the opportunity to have served as chairman and extend appreciation to all those involved.

Don Wright
Chairman

Auditors' Report

To the Members of the
Legislative Assembly,
Province of Saskatchewan:

We have audited the consolidated statement of financial position of Saskatchewan Government Growth Fund Management Corporation as at December 31, 1990 and the consolidated statements of income, retained earnings, and changes in financial position for the year then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1990 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Deloitte + Touche

March 8, 1991
Regina, Saskatchewan

Chartered Accountants

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Financial Position

As at December 31, 1990

	1990	1989
Assets		
Cash and short-term deposits	$ 9,486,456	$ 298,560
Accounts receivable and accrued interest on short-term deposits	93,069	259,752
Commissions paid in advance	852,150	–
Cash and short-term deposits held in escrow (Note 3)	4,206,137	18,016,895
Loans (Note 4)	15,108,651	–
	$ 29,746,463	$ 18,575,207
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	$ 163,473	$ 54,816
Commissions payable	81,750	–
Accrued interest payable on subscriptions	951,666	266,910
Preferred share subscription deposits (Note 3)	24,082,000	17,749,985
Dividends payable on preferred shares	65,210	–
	25,344,099	18,071,711
Shareholders' Equity		
Equity advances (Note 5)	11	1
Capital stock (Note 5)	2,390,250	–
Retained earnings	2,012,103	503,495
	4,402,364	503,496
	$ 29,746,463	$ 18,575,207

Approved on behalf of the Board:

_____ Chairman

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Retained Earnings

For the Year Ended December 31, 1990

	1990	1989
Retained earnings, beginning of year	$ 503,495	$ –
Net income for the year	1,573,818	503,495
Dividends on preferred shares	(65,210)	–
Retained earnings, end of year	$ 2,012,103	$ 503,495

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Income

For the Year Ended December 31, 1990

	1990	1989
Revenue		
Interest income	$ 2,923,499	$ 831,023
Other income	22,000	–
	2,945,499	831,023
Expenses		
Interest	1,030,463	267,237
Financing fee	249,460	–
Legal and professional	75,978	54,816
Administration	15,780	5,475
	1,371,681	327,528
Net income for the year	$ 1,573,818	$ 503,495

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1990

	1990	1989
Operating activities		
Net income	$ 1,573,818	$ 503,495
Net changes in non-cash balances relating to operations		
Accounts receivable and accrued interest on short-term deposits	127,525	(259,752)
Accounts payable and accrued liabilities	108,657	54,816
Accrued interest payable on subscriptions	684,756	266,910
	2,494,756	565,469
Loans		
Disbursements	(15,091,715)	–
Repayments	22,222	–
Cash (used in) provided by operating activities	(12,574,737)	565,469
Financing activities		
Equity advance	10	1
Proceeds from preferred share subscriptions	8,960,015	17,749,985
Sales commissions	(1,008,150)	–
Cash provided by financing activities	7,951,875	17,749,986
(Decrease) increase in cash during year	(4,622,862)	18,315,455
Cash position, beginning of year	18,315,455	–
Cash position, end of year	$ 13,692,593	$ 18,315,455
Cash position, end of year consists of:		
Cash and short-term deposits	$ 9,486,456	$ 298,560
Cash and short-term deposits held in escrow	4,206,137	18,016,895
	$ 13,692,593	$ 18,315,455

See accompanying notes to financial statements

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1990

1. Status of the Corporation

Under the authority of an Order-in-Council, the corporation was established in January 1989 for the purpose of establishing and managing the Saskatchewan Government Growth Fund Ltd. (SGGF). SGGF was incorporated in January 1989 under the Saskatchewan Business Corporations Act and has issued a confidential offering memorandum that constitutes a Provincial Government administered venture capital fund under the Federal Government's Immigrant Investor Program. This offering consists of a minimum of 30 and a maximum of 240 units, each unit representing 150,000 four per cent preferred shares at $1 per share.

Under the terms of the confidential offering memorandum, SGGF is required to invest in secured loans to Saskatchewan-based businesses.

Upon winding up of the Fund, pursuant to the Articles of Incorporation of SGGF, any assets remaining after redemption or retraction of preferred shares will be distributed to a charity or charities recognized under the Canadian Income Tax Act.

2. Significant accounting policies

Consolidation principles

The consolidated financial statements include the accounts of the corporation's subsidiary, Saskatchewan Government Growth Fund Ltd. (SGGF). All inter-company transactions have been eliminated.

Commissions paid in advance

According to the terms of a marketing agreement entered into by SGGF, a commission is legally payable to the independent marketing agent selling the unit upon the issuance of the investor's immigrant visa. An agreement was reached between the corporation and the marketing agent to pay certain commission amounts prior to investor visa issuance. These payments have been recorded as commissions paid in advance. When the commission becomes legally payable upon the issuance of the investor's visa, the amounts paid are removed from commissions paid in advance and accounted for as a share issuance cost.

Accrued interest payable

SGGF accrues interest on its preferred share subscription deposits at an annual rate of four per cent from the date of deposit to the date of investor visa issuance.

Accrued dividends payable

SGGF accrues dividends on its preferred shares at an annual rate of four per cent from the date of investor visa issuance.

Allowance for doubtful accounts

Accounts are reviewed on a regular basis by management. Where a potential loss is identified, the exposure is compared to the estimated value of the security and an appropriate provision established. Interest revenue is not accrued for accounting purposes on loans where a write-off is anticipated. To date no provision for losses has been deemed necessary.

3. **Deposits held in escrow and preferred share subscription deposits**

Preferred share subscription deposits as at December 31:

	1990	1989
Preferred share subscription deposits - visa issued	$ 972,000	$ -
Preferred share subscription deposits - visa not yet issued	21,035,500	16,179,485
Preferred share subscription deposits - allocated for future commission payments	2,074,500	1,570,500
	$ 24,082,000	$ 17,749,985

As at December 31, 1990, $26,710,000 (1989 - $17,749,985) preferred share subscription deposits had been received by SGGF. Seventeen investors accounting for $2,550,000 (1989 - nil) in deposits had received visas and preferred shares. Preferred share subscription deposits from investors who had received their immigrant visa but had not yet been issued preferred shares were reduced by share issuance costs of $78,000 (1989 - nil). Share issuance costs represent commissions paid and or payable on the units.

Under the terms of the confidential offering memorandum, a portion of the preferred share subscription deposits is held in escrow in accordance with Employment and Immigration Canada program requirements.

If the investor's application for a visa is rejected the preferred share subscription deposit is repaid, along with interest calculated at an annual rate of four per cent from the date of deposit.

4. Loans

		1990		1989
Loan principal receivable	$	15,069,493	$	-
Interest accrued and receivable		27,102		-
Loan costs receivable		12,056		-
	$	15,108,651	$	-

Included in loan principal receivable is a loan in the amount of $11,212,700 which Saskatchewan Economic Development Corporation (SEDCO) has agreed to purchase in August, 1994 at fair market value as determined at that time.

5. Share capital

Equity advances

The advances are non-interest bearing and repayable to the Province of Saskatchewan at the discretion of the Treasury Board.

The authorized share capital of the corporation as at December 31 is:

Common shares - unlimited number of voting common shares.

Preferred Shares - unlimited number of four per cent, cumulative, redeemable, retractable preferred shares. The preferred share units are redeemable at the option of the holder after a three year ownership period for $112,500 plus unpaid dividends subject to the provisions of the Saskatchewan Business Corporations Act. The preferred shares are both redeemable and retractable after a five year ownership period for $150,000 plus unpaid dividends.

The share capital issued at December 31 is:

		1990		1989
2,550,000 preferred (1989-0 shares)	$	2,390,250	$	-

During the year, 2,550,000 preferred shares were issued to investors who had received their visa. Share issuance costs in the amount of $159,750 have been deducted from preferred share capital.

SASKATCHEWAN GOVERNMENT GROWTH FUND MANAGEMENT CORPORATION

Notes to the Consolidated Financial Statements

December 31, 1990

6. **Income taxes**

The corporation is a provincially owned crown corporation and accordingly is income tax exempt.

7. **Commitments**

The total amount of loans approved but not yet disbursed is $1,117,468.

8. **Related party transactions**

Included in these financial statements are income and expense amounts resulting from routine operating transactions conducted at prevailing market prices with various Saskatchewan controlled departments, agencies and corporations with which the corporation is related. Account balances resulting from these transactions are included in the Statement of Financial Position and are settled on normal trade terms.

The corporation engages the services of SEDCO to provide advice, information and personnel needed to ensure the ongoing management of the Fund. Total fees paid to SEDCO during the year amount to $9,800 (1989 - nil).

A financing fee in the amount of $249,460 was paid to SEDCO for acting in the capacity of an agent for the Fund by providing short term financing for a SGGF loan. The loan was subsequently bought back by the Fund when sufficient funds were available. The Fund subsidized the difference between SEDCO's published interest rate at the time and the actual loan interest rate.

Corporate Data

Address:

1. Saskatchewan Government Growth Fund Management Corporation
   Don Wright, Chairman
   1106 Winnipeg Street, P.O. Box 5024
   Regina, Saskatchewan, Canada
   S4P 3V7

2. Saskatchewan Government Growth Fund Ltd.
   1106 Winnipeg Street, P.O. Box 5024
   Regina, Saskatchewan, Canada
   S4P 3V7

   (a) Legal Counsel
   McDougall, Ready
   700 Royal Bank Building
   1020-11th Avenue
   Regina, Saskatchewan S4P 0J3

   (b) Escrow Agent
   Bank of Montreal
   1800 Scarth Street
   Regina, Saskatchewan S4P 2G3

   (c) Auditors
   Deloitte & Touche
   Chartered Accountants
   Suite 1700-1874 Scarth Street
   Regina, Saskatchewan S4P 4B3

   (d) Distribution Agent
   Nexus Marketing Corp.
   714-363 Broadway
   Winnipeg, Manitoba R3C 3N9

   (e) Transfer Agent
   Royal Trust Corporation of Canada
   2201-11th Avenue
   Regina, Saskatchewan S4P 2B8